2001 ANNUAL REPORT

THE DEVELOPMENT FUND

102-01228/

TABLE OF CONTENTS

Page 2. Transmittal Letter

3. Corporate Information

4. Corporate Profile

5. 2001 Overview

8. Loans Approved 2001

9. Historical Data

10. Performance Measurement

11. Economic Impact

12. TEAM Report

14. Financial Statements

The Development FUND

TRANSMITTAL

The Development FUND

The Honourable Eric Robinson
Minister Responsible for the
Communities Economic Development Fund
Province of Manitoba
Room 344 Legislative Building
Winnipeg MB R3C 0V8

Dear Sir:

It is my privilege to forward the Annual Report and Audited Financial Statements of the Communities Economic Development Fund for the fiscal year ended March 31, 2001.

This year has seen the Fund launch a new initiative, participate in the development of strategies directed at community development, and continue in its core business as a provider of capital to small business and to the fishing industry.

Despite adverse conditions in one key industry sector, the Fund has seen improvements in activity levels in its major programs. We recognize the challenges of the region we serve and are fortunate in having a dedicated staff who guide the programs. In addition, we have a Board of Directors who are willing to consider change and to provide management with direction in all its activities.

We look forward to continued success as an agent of change in the northern economy.

Respectfully submitted,

H. Westdal

Harold Westdal
Chairperson

COMMUNITIES ECONOMIC DEVELOPMENT FUND - A Manitoba Crown Corporation
Head Office: 100-23 Station Rd., Thompson, MB R8N 0N6 • Ph. 204-778-4138 • Fax 204-778-4313

CORPORATE INFORMATION

DIRECTORS AND OFFICERS

Minister Responsible: The Honourable Eric Robinson

Board of Directors:

Chairperson:	Harold Westdal	Winnipeg
Directors:	Linda Ballantyne	Grand Rapids
	Darlene Beck	Cross Lake
	Bill Cordell	Pikwitonei
	Gavin Lawrie	Churchill
	Jim Smith	The Pas
	John R. Yellowback	Thompson
	John McKay	Gillam
	Appointed Dec. 20, 2000	
	Carol Soble	Thompson
	Term ended Nov. 22, 2000	

Officers:

General Manager & Chief Executive Officer: R. Gordon Wakeling
Manager of Finance: Eileen Bray

HEAD OFFICE

100 - 23 Station Road
Thompson, Manitoba R8N 0N6
Telephone: (204) 778-4138
Fax: (204) 778-4313

CORPORATE PROFILE

THE DEVELOPMENT FUND IS THE TRADE NAME OF THE COMMUNITIES ECONOMIC Development Fund, a Manitoba Crown Corporation. Its primary activity is as a lender to small to medium enterprises in Northern Manitoba and to the commercial fishery throughout Manitoba. It undertakes other activities, as directed by Government, related to its legislated objective.

LEGISLATION

The Fund is governed by the Communities Economic Development Fund Act.

MANDATE

The object of the Fund, as stated in legislation, is to "encourage economic development in Northern Manitoba...through the provision of financial and other forms of assistance."

SERVICES

Based in legislation, the Corporation may:

- provide loans to assist in the establishment or expansion of any economic enterprise which conducts its business within the defined lending area.
- guarantee indebtedness of any economic enterprise, etc.
- lease personal or real property to economic enterprises.
- purchase shares, assets, or securities or underwrite the securities of qualifying economic enterprises.
- provide training for individuals in an economic enterprise.
- offer conferences, seminars, and other meetings for the promotion of good management practices.

CORPORATE GOALS

The Fund's goals are:

to provide effective, efficient service to clients;
to monitor loans in a manner responsible to the client and to the Fund;
to be informed and to share knowledge on economic development with client groups;
to be fiscally responsible to the Province;
to be a good corporate citizen.

2001 Overview

STRATEGIC OUTLOOK

AT A STRATEGIC LEVEL, THE FUND CONSIDERS ITSELF AN ECONOMIC DEVELOPMENT service provider to government. It does so by participating in policy and program development as required and by operating three programs:

- **Business Loans** – a program providing access to capital for viable businesses unable to obtain financing from other sources.
- **Fisheries Loans** – a program providing capital to the commercial fishing industry in Manitoba
- **TEAM** – a micro-enterprise development program (TEAM is introduced on pages 12 and 13 of this report).

There is an ongoing imperative to develop Northern Manitoba as the region's population continues to grow, and the population seeks opportunity to enjoy the goods and services routinely available in the rest of the Province. The task at hand remains daunting. The region is large, encompassing over 70% of the province's land mass, and sparsely populated, having less than 10% of the Provincial population. The area includes three distinct community types – having both Federal and Provincial jurisdiction:

Industrial – Rural municipalities with an industrial base (e.g. mine, smelter, lumber mill)
First Nation – Reserves (as defined under the Indian Act), many of which are isolated
Northern Affairs – Communities under the purview of the Department of Aboriginal and Northern Affairs.

The region's economic and social profiles remain at the poor extremes of measurement ranges. Though much progress has been made, and continues to be made, much remains to be done. The situation suggests a variety of programs will be needed to address regional and local development. The Fund continues work with government to address these issues.
Within the foregoing, the Fund continues to pursue its current programming to develop the region. 2001 has been a challenging year.

CORPORATE:

DURING A YEAR WHICH SAW THE FUND DEAL WITH A NUMBER OF SIGNIFICANT issues and during which there were some major accomplishments, the Fund marked the sad passing of one of its long term Board members - Mr. George Dram of Wabowden. Mr. Dram, a former mayor of Wabowden, served on the Board for over 16 years. He will be missed by Northerners. We extend our continued condolences to his family.

Among this year's list of highlights:

- Launch of the TEAM program, the Fund's first new program in over 8 years.
- Network Installation, involving an LAN and creation of on-line FTP access for field offices.
- Despite significant pressures in sectors such as forestry, the Fund again achieved budget.
- Significant turn around in the commercial fishery.

Also during 2001, the Fund dealt with the impacts of a severe downturn in the Forestry sector due to market effects and the Softwood Lumber dispute. The effect on loan volume is noted below, but in addition, the Fund had a role to play with contractors unable to make loan payments as they were without income until July 2001, when sawmill and harvesting operations at The Pas returned to full production levels.

During the Fall, the Fund saw some corporate re-organization as a new board was appointed. Mr. Harold Westdal remains as Chair, joined by one returning and six new members, whose contributions to the success of the Fund have been both welcome and immediate.

BUSINESS LOANS PROGRAM:

THE PROGRAM PROVIDES A SOURCE OF CAPITAL TO VIABLE ECONOMIC ENTERPRISES in Northern Manitoba when financing is not otherwise available on acceptable terms from other sources. Its existence permits the participation of Northern residents, who may not otherwise be able to access capital, in the benefits of development in the region. The program practices conventional risk assessment in considering loan projects, though by its nature it is expected to assume more risk than conventional lenders. Loans are non-forgivable, non concessionary, and are offered at or slightly above market rates.

Highlights for 2001 are:

- Enquiries handled – 249
- Applications Processed – 67
- Loans Approved – 28 totaling $2,797,419

In addition to the approval of loans, the Fund was involved in a subordinated debt issue which levered $2.7 million in external financing for a hotel renovation in Thompson.

Loan activity improved by 38% over the preceding year, but did not reach anticipated levels due to the issues in the forestry sector. During the current year, lumber prices declined and the softwood lumber agreement expired. These events conspired to cause increased uncertainty in the industry, and eventually the temporary closure of the mill at The Pas. (It has subsequently re-opened). Uncertainty led contractors to delay replacement of capital assets; a situation which is expected to turn around during the next fiscal year.

Improvements in loan activity are primarily in the tourism sector where hotel developments in Churchill and Thompson continued.

FISHERIES LOAN PROGRAM:

THE PROGRAM'S MANDATE IS TO PROVIDE CAPITAL TO THE COMMERCIAL FISHING industry in Manitoba, primarily to individual fishers for the purposes of purchasing or repairing equipment or purchasing quotas. The seasonal and cyclical nature of the industry as well as its location tend to act as barriers to accessing conventional forms of capital, nonetheless it provides a vital source of employment and cash income to a large number of Manitobans in rural settings. During the year ending March 31, 2001:

The Fishery in Manitoba:

- Provided direct employment for 1,400 fishers
- Provided indirect employment for 400 employees of FFMC
- Contributed approximately $30 million directly to the Manitoba economy

Program staff are to be commended on the extent to which they are involved in the main stream of the industry. CEDF Fisheries Loans staff:

- Approved 829 loans totalling $4.2 million to fishers making purchases in Manitoba.
- Collected $4.9 million in payments on fisheries loans.
- Reduced loan loss exposure by $200,000.
- Made presentations to a variety of organizations including - Manitoba Southern Chief's conference on fishing, Norway House-MMF conference on fishing/economic development, Wanipigow Producers Co-op, Easterville fisheries revitalization committee, and a number of community fishers' meetings.
- Assisted fishers and the Department of Conservation, Natural Resources, in implementing a successful trial annual quota entitlement in Grand Rapids.
- Participated in the meetings to reactivate the Lake Winnipeg Fishery Advisory Board.

2000/2001 was the program's most active year since 1991, both in terms of loan approvals and activity in the industry. The industry is currently operating at near record levels. It is reasonable to assume it will revert to nearer average in upcoming years. The Fund will continue to play an active role in all cycles of the sector.

Business Loans Approved

AMOUNT	NAME	LOCATION	PURPOSE	INTEREST	TERM IN MONTHS
$ 500,000	Zimola, Rowena	Thompson	Hotel	9.250%	180
50,000	Pimichikamac Air Ltd.	Cross Lake	Airline	2.000%	24
50,000	Laliberte, Darcy	San Clara	Trucking	10.250%	48
46,168	Northern Nights Lodge	Churchill	Hotel	9.250%	36
9,130	Wright, O & L	Ashville	Newspaper	10.500%	36
75,610	Kalechyn, Murray & Suzette	Swan River	Bowling Lanes	9.250%	120
3,700	Mace, Arthur	Thompson	School Bus	10.250%	12
36,965	Mowatt, Allan	Norway House	Trucking	10.250%	36
50,000	Country Club Foods	Arborg	Food Processing	10.500%	36
22,634	Northwest Co-op Fisheries	Leaf Rapids	Fish Processing	10.000%	24
8,091	Flett, Paul	Camperville	Guiding	10.500%	24
30,943	Morrisseau & Jonasson	Thompson	Construction	10.000%	48
97,730	4011961 Manitoba Ltd.	Koostatak	Fish Packing	9.375%	60
322,898	Spence, Mike & Laureen	Churchill	Tourism	9.125%	120
101,925	Dionne, Kelvin	Wanless	Service Station	9.125%	120
400,000	3907741 Manitoba Ltd.	Flin Flon	Hotel	9.125%	120
8,620	Isaac, Brent	Pine River	Forestry	10.000%	24
61,393	Meikle, Robb & Gertrude	Norway House	Tourist Lodging	9.000%	60
152,743	Craig, Scott	Ilford	Hotel	9.125%	120
185,832	Barren Lands Construction	Brochet	Winter Road	9.625%	36
8,112	Kowbuz, Robert	Dauphin	Welding	9.500%	42
6,590	Chartrand, James	Rock Ridge	Taxi	9.500%	36
96,418	Prokopowich, Gloria	Dauphin	Women's Clothing	9.000%	180
200,000	Thompson, K.	Thompson	Construction	9.250%	27
100,000	Chemawawin Cree Nation	Easterville	Harvesting	9.250%	48

$2,625,502	Total Active Loan Approvals - 25 clients
171,917	Loans Approved/Withdrawn (unlisted) - 3 clients
2,797,419	Total approvals - 28 clients

History of Business Loans

YEAR APPROVED	AMOUNT	APPLICATIONS APPROVED	JOBS CREATED AND/OR RETAINED
1972	$389,500	19	56
1973	1,349,750	82	125
1974	983,983	43	100
1975	731,910	16	73
1976	374,470	18	100
1977	704,658	38	108
1978	510,399	20	103
1979	556,459	20	92
1980	1,982,791	37	144
1981	1,180,740	34	120
1982	2,800,140	46	176
1983	2,138,275	31	138
1984	2,080,595	49	144
1985	2,326,548	63	172
1986	2,909,735	43	159
1987	3,573,294	66	215
1988	3,550,050	70	210
1989	725,243	22	31
1990	1,681,090	38	136
1991	1,737,344	30	80
1992	1,183,686	19	102
1993	5,406,375	36	120
1994	1,427,220	21	88
1995	4,811,247	51	135
1996	6,134,635	64	252
1997	4,321,829	53	198
1998	4,387,457	45	230
1999	5,188,498	41	178
2000	2,062,664	36	165
2001	2,797,419	28	170
	$70,008,004	1179	4120

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PERFORMANCE DATA

	2001	2000	1999	1998	1997
No. of Business Loans Approved	28	36	41	45	53
Dollar Value - Business	2,797,419	2,062,664	5,188,498	4,387,457	4,321,829
No. of Loans Approved - TEAM	6				
Dollar Value - TEAM	20,565				
Dollar Value - Fish Approvals	4,185,732	3,793,661	2,617,119	2,529,516	3,356,312
No. of Active Loans - Business	143	141	138	129	143
No. of Active Loans - TEAM	6				
No. of Active Loans - Fish	1098	1110	1106	1104	1104
Portfolio Value - Total	23,592,871	23,624,304	23,787,182	20,967,782	20,152,782
Bad Debt Expense - Business	399,418	299,967	457,130	350,287	388,217
As a % of Approvals	14.3%	14.5%	8.81%	7.98%	8.98%
Bad Debt Expense - Fish	100,000	200,000	550,000	247,518	250,000
As a % of Approvals	2.4%	5.3%	21.02%	9.79%	7.45%
Total Subsidy	$1,500,200	1,379,999	1,995,377	1,545,000	1,558,757
Subsidy as a % of Approvals	21.42%	23.56%	24.63%	21.25%	20.30%

ECONOMIC IMPACT

THE FUND CONTINUES TO FACE NUMEROUS CHALLENGES TO MAINTAIN ITS PRIMARY function and at the same time deliver a professionally managed development agency for economic expansion including the number of jobs created and maintained.

We present the following data which reflects our impact on the regional economy within our mandated area.

JOBS

Number of persons directly employed in business supported by Fund loans: [1]	511
Number of fishers supported by Fund loans: [2]	1263
Total Employment:	1774

Revenues (000's)

Total revenues of Business Loan clients: [1]	$41,395
Total revenues of Fisheries Loan clients (before final payments and transfer income): [2]	19,670
Total Revenue:	$61,065
Direct Wages (000's)	$10,310

1 Data is drawn from material financial statement provided by clients and from on-site observations by Fund staff during the annual account review.

2 Data is drawn from payments provided to Fund and from active accounts within loan ledger.

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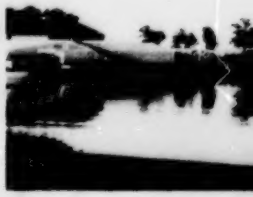

INTRODUCING

Developing a Culture of Commerce

THE TEAM PROGRAM HAS BEEN OVER 2 years in the making. The Fund consulted with international groups involved in Microenterprise Development including Calmeadow and Accion, and we take this opportunity to thank them for their assistance. The program's mandate is to facilitate and develop the "Culture of Commerce" in Northern Manitoba. The program will accomplish this by helping in the grass roots development of micro enterprises in communities where commercial ventures are not the first choice for income creation.

Why micro enterprise? There are 3 main reasons. First, the basic principles involved in running a small business are the same as in a large business. Second, it requires minimal investment to start a "cottage based" business. Third, many new entrepreneurs are a lot more comfortable with the prospect of starting small and slowly growing their businesses.

TEAM's services were developed from research during program design. Data suggested three areas of service which (in order of importance) contribute to successful business start-ups.

1) Technical Assistance
Help is only a phone call away. The resources of the Northern Business Resource Center, and the trained business staff of the Communities Economic Development FUND are there to assist TEAM members solve any business problem they encounter. TEAM is there to help start the business (e.g. helping with the development of a business plan) and will be there after the business opens (aftercare, training).

2) Peer Support
TEAM facilitates the meeting of TEAM members in each community to share ideas and concerns.

3 Capital
Businesses need capital, and TEAM (with the Development FUND) can provide loans to viable businesses.

50 Technical Assistance Contacts

12 Peer Support Meetings

9 Loans

13 TEAM Communities

60 TEAM Members

2001 REPORT

THE TEAM PROGRAM STARTED working with communities in August 2000. Its objective is to establish TEAM's in 15 communities per year.

Nearing the end of its first year of operations, the program is working with 13 communities in Northern Manitoba, with 60 TEAM members.

TEAM member businesses include Crafts, Personal Services, Tourism, Business Services, Natural Resources, and Retail. During its first year of operations, the program has been surprised by the diversity of small business ideas and opportunities it has encountered.

Program uptake supports the design research as to required services. During the period, the program handled 50 technical assistance requests, ranging from assistance in obtaining a business licence to training workshops. An important aspect of TEAM's Technical Assistance service is that it works with existing agencies, programs, and services, in order to help clients access the necessary services to establish/continue their businesses. This aspect of TEAM avoids duplication of service. During the year, the program has co-operated with many agencies including community colleges, community futures organizations, government departments, and community development corporations.

Under group support, the program:

1. Uses identifiers (member cards, shirts, etc) to build client affinity;
2. Publishes a regular newsletter featuring client businesses, sharing information among communities;
3. Holds community meetings with established TEAMs.
(current year activity - 12 meetings)

Research indicated that access to capital (while necessary) was the least required of the three services. The program can offer loans, but will often work with clients under its technical assistance area to obtain financing from other sources. During the year the program has made 9 loans totalling $29,400.

To date, the program has received very positive feedback from clients, communities, and other groups. It is achieving its stated objective of raising business awareness in areas where commercial activity is needed.

AUDITOR'S REPORT

HAUGEN MORRISH
CHARTERED ACCOUNTANTS

TO THE BOARD OF DIRECTORS
COMMUNITIES ECONOMIC DEVELOPMENT FUND

We have audited the balance sheet of Communities Economic Development Fund as at March 31, 2001 and the statement of operations and cash flows for the year then ended. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Fund as at March 31, 2001 and the results of its operations and the cash flows for the year then ended in accordance with generally accepted accounting principles.

Haugen Morrish

CHARTERED ACCOUNTANTS
The Pas, Manitoba
May 25, 2001

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BALANCE SHEET

March 31	2001	2000
ASSETS		
Cash	325,281	$412,208
Trust deposits	7,245	8,690
Due from Province of Manitoba *(Note 3)*	2,031,271	1,830,594
Accounts receivable	72,958	352,572
Advances *(Note 13)*	169,055	28,998
Life insurance receivable	13,631	16,687
Property held for resale	51,251	138,906
Prepaid expenses	16,582	7,635
Loans receivable *(Note 4)*	18,351,129	18,602,624
	21,038,403	21,398,914
CAPITAL ASSETS *(Note 7)*	37,707	23,194
	$21,076,110	$21,422,108
LIABILITIES		
Accounts payable and accrued liabilities	$219,252	$52,189
Accrued pension liability *(Note 2)*	1,229,317	1,158,385
Interest payable to the Province of Manitoba	605,645	506,284
Advances by the Province of Manitoba *(Note 8)*	19,021,896	19,505,250
	$21,076,110	$21,422,108

Approved on behalf of the Board

Director

Director

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Approved on behalf of the Board

Director

Director

Statement of Revenue and Expenditures

Year ended March 31

	2001	2000
REVENUE		
Loan interest		
Team	$205	$0
Business Program	1,089,342	1,166,706
Fisheries Program	959,528	820,963
Investment income	44,208	34,101
	2,093,283	2,021,770
COST OF FUNDS		
Interest paid to the Province of Manitoba		
Business Program	898,656	897,774
Fisheries Program	662,129	585,605
	1,560,785	1,483,379
GROSS MARGIN	532,498	538,391
OPERATING EXPENSES *(Schedule 1)*	1,563,351	1,452,848
	(1,030,853)	(914,457)
OTHER INCOME - ADMINISTRATION FEES	30,071	34,427
EXCESS OF EXPENDITURES OVER REVENUE BEFORE PROVISION FOR DOUBTFUL ACCOUNTS	(1,000,782)	(880,030)
Provision for doubtful accounts - regular operations	499,418	499,969
EXCESS OF EXPENDITURES OVER REVENUE BEFORE SUBSIDY FROM PROVINCE OF MANITOBA	(1,500,200)	(1,379,999)
SUBSIDY DUE FROM PROVINCE OF MANITOBA	1,500,200	1,379,999
	$0	$0

STATEMENT OF CASH FLOWS

Year ended March 31

	2001	2000
CASH FLOWS FROM		
OPERATING ACTIVITIES		
Cash received from Province of Manitoba and other sources	$2,988,354	$2,894,858
Expenditures to suppliers and employees	(1,513,081)	(1,388,136)
Interest paid	(1,560,786)	(1,531,003)
	(85,513)	(24,281)
INVESTING ACTIVITIES		
Purchase of capital assets	(26,788)	(9,878)
Loans issued net of principal payments	(28,879)	(209,094)
Purchase of equipment - net	87,655	120,435
	31,988	(98,537)
FINANCING ACTIVITIES		
Subsidy - Province of Manitoba *(Note 1)*	1,500,200	1,379,999
Advances by the Province of Manitoba	(1,535,047)	(1,267,131)
	(34,847)	112,868
NET DECREASE IN CASH AND TRUST DEPOSITS	(88,372)	(9,950)
CASH AND TRUST DEPOSITS, beginning of year	420,898	430,848
CASH AND TRUST DEPOSITS, end of year	$332,526	420,898
CASH AND TRUST DEPOSITS REPRESENTED BY		
Cash	$325,281	$412,208
Trust deposits	7,245	8,690
	$332,526	$420,898

STATEMENT OF REVENUE AND EXPENDITURES

Year ended March 31

	2001	2000
REVENUE		
Loan interest		
Team	$205	$0
Business Program	1,089,342	1,166,706
Fisheries Program	959,528	820,963
Investment income	44,208	34,101
	2,093,283	2,021,770
COST OF FUNDS		
Interest paid to the Province of Manitoba		
Business Program	898,656	897,774
Fisheries Program	662,129	585,605
	1,560,785	1,483,379
GROSS MARGIN	532,498	538,391
OPERATING EXPENSES *(Schedule 1)*	1,563,351	1,452,848
	(1,030,853)	(914,457)
OTHER INCOME - ADMINISTRATION FEES	30,071	34,427
EXCESS OF EXPENDITURES OVER REVENUE BEFORE PROVISION FOR DOUBTFUL ACCOUNTS	(1,000,782)	(880,030)
Provision for doubtful accounts - regular operations	499,418	499,969
EXCESS OF EXPENDITURES OVER REVENUE BEFORE SUBSIDY FROM PROVINCE OF MANITOBA	(1,500,200)	(1,379,999)
SUBSIDY DUE FROM PROVINCE OF MANITOBA	1,500,200	1,379,999
	$0	$0

STATEMENT OF CASH FLOWS

Year ended March 31

	2001	2000
CASH FLOWS FROM		
OPERATING ACTIVITIES		
Cash received from Province of Manitoba and other sources	$2,988,354	$2,894,858
Expenditures to suppliers and employees	(1,513,081)	(1,388,136)
Interest paid	(1,560,786)	(1,531,003)
	(85,513)	(24,281)
INVESTING ACTIVITIES		
Purchase of capital assets	(26,788)	(9,878)
Loans issued net of principal payments	(28,879)	(209,094)
Purchase of equipment - net	87,655	120,435
	31,988	(98,537)
FINANCING ACTIVITIES		
Subsidy - Province of Manitoba *(Note 1)*	1,500,200	1,379,999
Advances by the Province of Manitoba	(1,535,047)	(1,267,131)
	(34,847)	112,868
NET DECREASE IN CASH AND TRUST DEPOSITS	(88,372)	(9,950)
CASH AND TRUST DEPOSITS, beginning of year	420,898	430,848
CASH AND TRUST DEPOSITS, end of year	$332,526	420,898
CASH AND TRUST DEPOSITS REPRESENTED BY		
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Trust deposits	7,245	8,690
	$332,526	$420,898

SCHEDULE OF OPERATING EXPENSES

Year ended March 31

	2001	2000
Amortization of capital assets	$12,275	$10,318
Collection costs	37,630	37,887
Communications	51,303	51,352
Credit reports	2,190	2,840
Directors' fees and expenses	66,756	57,174
Government vehicles	34,860	36,676
Insurance	911	1,095
Legal costs	18,499	13,051
Life insurance *(Note 10)*	63,157	63,574
Office supplies and expenses	18,548	16,579
Pension expense	132,147	100,253
Professional fees	23,630	39,309
Rent and utilities	76,373	75,741
Salaries and benefits	873,325	856,434
Sundry	29,423	29,571
TEAM expenses	65,061	
Travel	57,263	60,994
	$1,563,351	$1,452,848

Schedule of Operating Expenses

Year ended March 31

	2001	2000
Amortization of capital assets	$12,275	$10,318
Collection costs	37,630	37,887
Communications	51,303	51,352
Credit reports	2,190	2,840
Directors' fees and expenses	66,756	57,174
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Insurance	911	1,095
Legal costs	18,499	13,051
Life insurance *(Note 10)*	63,157	63,574
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Rent and utilities	76,373	75,741
Salaries and benefits	873,325	856,434
Sundry	29,423	29,571
TEAM expenses	65,061	
Travel	57,263	60,994
	$1,563,351	$1,452,848

March 31, 2001

1. NATURE OF THE ORGANIZATION

The Communities Economic Development Fund (the Fund) was established in 1971 (Ch. C155) as a Crown corporation to encourage the optimum economic development of remote and isolated communities within the Province of Manitoba. With an act revision passed in July, 1991 the object of the Fund was set to encourage economic development in Northern Manitoba, to act as a lending authority in the fishing industry in the Province of Manitoba and to provide financial assistance to aboriginal people in the Province outside the City of Winnipeg. The Business and Fisheries Loan Programs are administered under the C.E.D.F. Act.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

ALLOWANCE FOR DOUBTFUL ACCOUNTS

Business Loan Program

The allowance for doubtful accounts on loans and interest receivable is calculated on a specific item basis in addition to a 5% non-specific provision on the remaining loans not specifically provided for.

Fisheries Loan Program

The allowance for doubtful accounts on fisheries loans and interest receivable is calculated based on the present value of future cash flows for those loans which, if they maintain their past payment history, will fail to retire their debt completely within the agreed term. The net present value (NPV) formula used for calculating the allowance for doubtful accounts is recognized by the Canadian Institute of Chartered Accountants; however, it does not account for a fishery closure or regulated reduction of production. In the event of a fishery closure or regulated reduction of production, the NPV formula may not adequately provide for doubtful accounts.

PENSION EXPENSE AND OBLIGATIONS

The employees of the Fund are not members of the Civil Service of the Province but they contribute to, and are pensionable under, the Civil Service Superannuation Fund. In accordance with the provisions of the Manitoba Civil Service Superannuation Act, the Fund will contribute 50% of the pension payments made to retired employees. Payments to the pensioners are charged against the liability account. The current pension expense is determined on the basis of an actuarial valuation. The most recent actuarial valuation as at December 31, 1998 indicated the accrued liability is in line with the obligation forecast in the report. In fiscal years prior to 1989, the Fund charged to operations contributions to the Manitoba Civil Service Superannuation Fund which amounted to 50% of the pension payments made to retired employees. Beginning in the 1989 fiscal year the Fund has recorded a provision to fund current service obligations. The total liability as at March 31, 2001 amounts to $1,229,317 (2000 - $1,158,385).

CAPITAL ASSETS

Capital assets are recorded at cost. Amortization of capital assets has been calculated on a straight line basis using the following rates:

Building	10%
Office furniture and equipment	10 - 20%
Computer equipment	25 - 50%

3. DUE FROM PROVINCE OF MANITOBA

Annually, the Province of Manitoba provides a grant to cover the Fund's anticipated subsidy requirements for the year. The amount of $2,031,271 (2000 - $1,830,594) represents additional funds needed to cover the actual requirements for the year including coverage for the pension liability. The balance is comprised of the following:

	2001	2000
Department of Northern Affairs		
Subsidy (refundable)	$361,264	$296,414
- Orders in Council pending	375,290	310,395
Pension (unfunded)	1,229,317	1,158,385
Severance accrual (unfunded)	65,400	65,400
	$2,031,271	$1,830,594

4. LOANS RECEIVABLE

	2001	2000
Business Loan Program		
Principal	$11,972,551	$12,273,239
Accrued interest	477,173	302,232
	12,449,724	12,575,471
Allowance for doubtful accounts *(Note 5)*	(1,993,420)	(1,631,359)
	10,456,304	10,944,112
Fisheries Loan Program		
Principal	10,465,796	10,316,886
Accrued interest	671,418	731,947
	11,137,214	11,048,833
Allowance for doubtful accounts *(Note 5)*	(3,256,358)	(3,390,321)
	7,880,856	7,658,512
TEAM Loan Program		
Principal	13,782	
Accrued interest	187	-
	13,969	-
	$18,351,129	$18,602,624

5. ALLOWANCE FOR DOUBTFUL ACCOUNTS

The change in the allowance is accounted for as follows:

Business Loan Program	**2001**			2000
	Specific	Non-Specific	Total	Total
Balance, beginning of year	$1,112,361	$518,998	$1,631,359	$1,494,201
Provision for the year	453,960	(54,542)	399,418	299,969
	1,566,321	464,456	2,030,777	1,794,170
Accounts written off	(37,357)	-	(37,357)	(162,811)
Balance, end of year	1,528,964	464,456	1,993,420	$1,631,359

Fisheries Loan Program	**2001**	2000
Balance, beginning of year	$3,390,321	$3,387,578
Provision for the year	100,000	200,000
	3,490,321	3,587,578
Accounts written off	(233,963)	(197,257)
Balance, end of year	$3,256,358	$3,390,321

6. LOAN COMMITMENTS AND CONTINGENT LIABILITIES

	2001	2000
Loan guarantees	$50,000	$220,000
Undisbursed balance of approved loans	1,687,401	618,079
	$1,737,401	$838,079

7. CAPITAL ASSETS

	Cost	Accumulated Amortization	Net Book Value **2001**	Net Book Value 2000
Office furniture and equipment	$192,373	$154,666	$37,707	$23,194

8. ADVANCES BY THE PROVINCE OF MANITOBA

	2001	2000
Business Loan Program *(Note 9)*	$11,274,451	$12,194,358
Fisheries Loan Program *(Note 10)*	7,747,445	7,310,892
	$19,021,896	$19,505,250

9. BUSINESS LOAN PROGRAM

The Communities Economic Development Fund is included under The Provision of Manitoba's Loan Act Authority. Advances from the Province of Manitoba bear interest at rates established by the Minister of Finance pursuant to "The Loan Act, 2000". The advances are repayable at any time in whole or in part at the option of the Lieutenant Governor in Council. Prior to the 1992/93 fiscal year, advances by the Province were interest free.

CAPITAL ASSETS

Capital assets are recorded at cost. Amortization of capital assets has been calculated on a straight line basis using the following rates:

Building	10%
Office furniture and equipment	10 - 20%
Computer equipment	25 - 50%

3. DUE FROM PROVINCE OF MANITOBA

Annually, the Province of Manitoba provides a grant to cover the Fund's anticipated subsidy requirements for the year. The amount of $2,031,271 (2000 - $1,830,594) represents additional funds needed to cover the actual requirements for the year including coverage for the pension liability. The balance is comprised of the following:

	2001	2000
Department of Northern Affairs		
Subsidy (refundable)	$361,264	$296,414
- Orders in Council pending	375,290	310,395
Pension (unfunded)	1,229,317	1,158,385
Severance accrual (unfunded)	65,400	65,400
	$2,031,271	$1,830,594

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	2001	2000
Business Loan Program		
Principal	$11,972,551	$12,273,239
Accrued interest	477,173	302,232
	12,449,724	12,575,471
Allowance for doubtful accounts *(Note 5)*	(1,993,420)	(1,631,359)
	10,456,304	10,944,112
Fisheries Loan Program		
Principal	10,465,796	10,316,886
Accrued interest	671,418	731,947
	11,137,214	11,048,833
Allowance for doubtful accounts *(Note 5)*	(3,256,358)	(3,390,321)
	7,880,856	7,658,512
TEAM Loan Program		
Principal	13,782	
Accrued interest	187	-
	13,969	-
	$18,351,129	$18,602,624

5. ALLOWANCE FOR DOUBTFUL ACCOUNTS

The change in the allowance is accounted for as follows:

Business Loan Program	**2001**			2000
	Specific	Non-Specific	Total	Total
Balance, beginning of year	$1,112,361	$518,998	$1,631,359	$1,494,201
Provision for the year	453,960	(54,542)	399,418	299,969
	1,566,321	464,456	2,030,777	1,794,170
Accounts written off	(37,357)	-	(37,357)	(162,811)
Balance, end of year	1,528,964	464,456	1,993,420	$1,631,359

Fisheries Loan Program	**2001**	2000
Balance, beginning of year	$3,390,321	$3,387,578
Provision for the year	100,000	200,000
	3,490,321	3,587,578
Accounts written off	(233,963)	(197,257)
Balance, end of year	$3,256,358	$3,390,321

6. LOAN COMMITMENTS AND CONTINGENT LIABILITIES

	2001	2000
Loan guarantees	$50,000	$220,000
Undisbursed balance of approved loans	1,687,401	618,079
	$1,737,401	$838,079

7. CAPITAL ASSETS

	Cost	**Accumulated Amortization**	**Net Book Value 2001**	**Net Book Value 2000**
Office furniture and equipment	$192,373	$154,666	$37,707	$23,194

8. ADVANCES BY THE PROVINCE OF MANITOBA

	2001	2000
Business Loan Program *(Note 9)*	$11,274,451	$12,194,358
Fisheries Loan Program *(Note 10)*	7,747,445	7,310,892
	$19,021,896	$19,505,250

9. BUSINESS LOAN PROGRAM

The Communities Economic Development Fund is included under The Provision of Manitoba's Loan Act Authority. Advances from the Province of Manitoba bear interest at rates established by the Minister of Finance pursuant to "The Loan Act, 2000". The advances are repayable at any time in whole or in part at the option of the Lieutenant Governor in Council. Prior to the 1992/93 fiscal year, advances by the Province were interest free.

Advances from the Business Loan Program at March 31, 2001 are accounted for as follows:

Advances, beginning of year	$13,825,717
2000/01 loan advances	2,283,724
2000/01 loan advance repayments	(2,841,570)
	13,267,871
Unfunded allowance, beginning of year	1,631,359
2000/01 provision for doubtful accounts	399,418
Write offs (Order in Council pending)	(37,357)
	1,993,420
Net Balance, end of year *(Note 8)*	$11,274,451

The fund has specific loan exposure in the forestry sector in Northern Manitoba. Loans totalling $3,292,026 were outstanding to timber harvesting and related operations as at March 31, 2001. Non-specific allowances have been claimed against the portfolio totalling 5% of the outstanding loan balances at March 31, 2001. In addition, specific allowances have been claimed where management believes the loan has been impaired or where there is a difference between the carrying value of the loan and the estimated realizeable value of the assets pledged as security. The total allowance claimed against the forestry loan portfolio as at March 31, 2001 amounted to $519,582.

As of March 9, 2001 all timber harvesting operations were curtailed by Tolko Manitoba Inc. (Tolko). Tolko cited local, provincial and international issues that impact its ability to operate economically and as such were forced to shut down all woodlands operations. Sawmill operations re-commenced on a reduced scale in early April. As of May 25, 2001 the harvesting operations remain idle as Tolko continues to identify methods to reduce the cost of its fibre supply to its mill in The Pas.

Should wood harvesting operations not be reinstated to the pre-shutdown levels, the Funds exposure to loan losses could increase. As of May 25, 2001, it is impossible to predict the extent of additional losses, if any, that the Fund may experience on loans in the forestry sector. As such, no provision for additional loan losses for forestry sector loans have been provided for in these financial statements.

The Fund's exposure in the forestry sector may also be impacted by the outcome of the current Canadian softwood lumber dispute with the United States. The specific impact of market disruption due to countervailing tariff or other trade action, though likely negative, is unknown at this time.

10. FISHERIES LOAN PROGRAM

The Communities Economic Development Fund is appointed as the Lending Agency for the Fisheries Loan Program (under Part III of the Fisheries Act). The portfolio had previously been administered by Manitoba Agricultural Credit Corporation (M.A.C.C.) and funded by the Department of Natural Resources. Effective April 1, 1992 this portfolio was transferred to the Fund in its entirety.

Advances to the Fisheries Loan Program at March 31, 2001 are accounted for as follows:

Advances, beginning of year	$10,701,212
2000/01 loan advances	4,281,507
2000/01 loan advance repayments	(3,978,916)
	11,003,803
Unfunded allowance, beginning of year	3,390,320
2000/01 provision for doubtful accounts	100,000
Write offs (Order in Council pending)	(233,962)
	3,256,358
Net Balance, end of year *(Note 8)*	$7,747,445

Interest costs are charged on total advances of $10,701,212 which is the total portfolio including the allowance for loss portion of $3,390,320.

Life insurance on clients - The Fisheries Loan Program carries Life and Accidental Dismemberment on clients' loans. The cost of this insurance is recovered in the margin charged on interest rates.

The Fund utilizes a net present value formula to value its Fish Loan Portfolio and estimate the provision for loan losses. The formula takes into account the payments received in the previous 12 month period as a basis for calculating future collections. The 2000 and 2001 fishing seasons were dramatically improved over previous seasons. As a result, fewer fish loans indicate arrears potential and the formula utilized to value the fish loan portfolio generates a lower estimate for loan loss provision.

The provision for fish loan losses in the Funds books of account exceeds the value derived by the net present value formula as at March 31, 2001 by $909,047 (March 31, 2000 - $529,747).

	2001	2000
Loan Loss Provision		
• per accounts	$3,256,358	$3,390,321
• per net present value calculation	2,347,311	2,860,574
Difference	$909,047	$527,747

The commercial fishing industry is cyclical in nature and as a result, no adjustment has been made to the loan loss provision as at March 31, 2001

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• per net present value calculation	2,347,311	2,860,574
Difference	$909,047	$527,747

The commercial fishing industry is cyclical in nature and as a result, no adjustment has been made to the loan loss provision as at March 31, 2001

11. LOAN ACT AUTHORITY

Amounts authorized for advances under "The Loan Act, 2000" are as follows:

Per Schedule A of "The Loan Act, 2000"	$10,800,000
Per Schedule B of "The Loan Act, 2000"	
- Direct Loans	9,547,842
	20,347,842
Advances made during the 2000/01 fiscal year	(6,565,231)
Unused Loan Act capital available	$13,782,611

Guarantees of $970,000 were also authorized under "The Loan Act, 2000". Loan guarantees totalling $50,000 have been issued by the Communities Economic Development Fund as at March 31, 2001.

12. COMMITMENTS

The Fund has leases for office premises as follows:

Swan River	$675 per month
Thompson	$7,235 per month

The leases expire July 31, 2002 and July 31, 2005 respectively.

13. ADVANCES

The advances bear interest at the Royal Bank of Canada prime interest rate, plus 1%, payable monthly and are secured by a general security agreement.

14. ECONOMIC DEPENDENCE

The ongoing operation of the Communities Economic Development Fund depends on obtaining adequate financing and funding. The Communities Economic Development Fund is dependent upon the Province of Manitoba for funding of operations.